# CHALLENGE: CARVE OUT

## PERSPECTIVE OF A STRATEGIC BUYER

# REMONDIS is one important pillar inside family run RETHMANN Group

## Introduction

# RETHMANN group comprises 88.000 employees in fully consolidated units

## RETHMANN Overview

**RETHMANN-Group**

| | |
|---|---|
| Revenue*: | 21,2 bn € |
| Equity: | >4,5 bn €[1)] |
| Legal entities: | >2.400 [2)] |
| Employees: | 88.000 |


**REMONDIS®**

- Water
- Recycling
- Services

| | |
|---|---|
| Revenue (€ mn) | 11.500 |
| Employees | 40.000 |

**RHENUS LOGISTICS**

- Contract Logistics
- Freight Logistics
- Port Logistics

| | |
|---|---|
| Revenue (€ mn) | 7.000 |
| Employees | 37.500 |

**SARIA®**

- High-quality goods from animal by-products
- Producer of renewable energy
- Service provider for the agricultural and food sector

| | |
|---|---|
| Revenue (€ mn) | 3.000 |
| Employees | 10.500 |

34,0%

**transdev**

- Operator and global integrator of innovative mobility solutions
- Operator of public transport networks (rail, bus, ferry, tram, cable car)
- Connected mobility and on-demand solutions

| | |
|---|---|
| Revenue (€ mn) | 7.000 |
| Employees | 82.000 |

* The difference to the individual values of the three corporate divisions results from the consolidation at overall Group level. Excluding Transdev.

1) Estimtation
2) Actuals 2020

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# International strength combined with personal responsibility

## Values of a family-run company

- With more than 80 years' experience, REMONDIS is a family-run company that is continuously developing its business, is able to make quick decisions and can act completely independently. Priority is always given to values such as trust, reliability, loyalty and ensuring both customers and employees are satisfied at all times.

- At REMONDIS, there is not only a strong desire to invest but also the means to do so – and the company's profits are invested exactly where they are required, i.e. wherever there is a need for new capacities.

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# Business activities on Recycling, Services and Water

## REMONDIS at a glance

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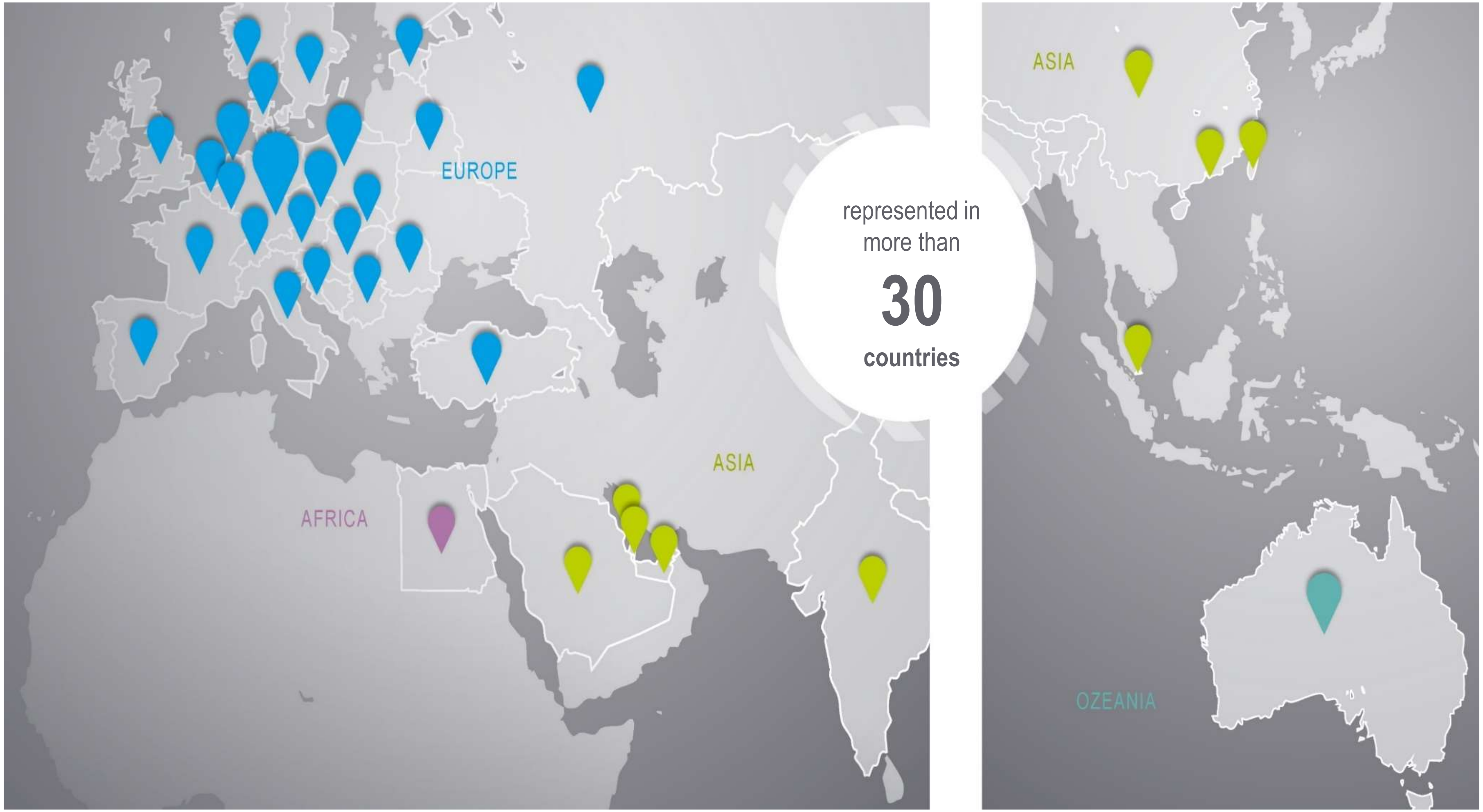
# Core activities in Europe with an extending global footprint

## REMONDIS Locations



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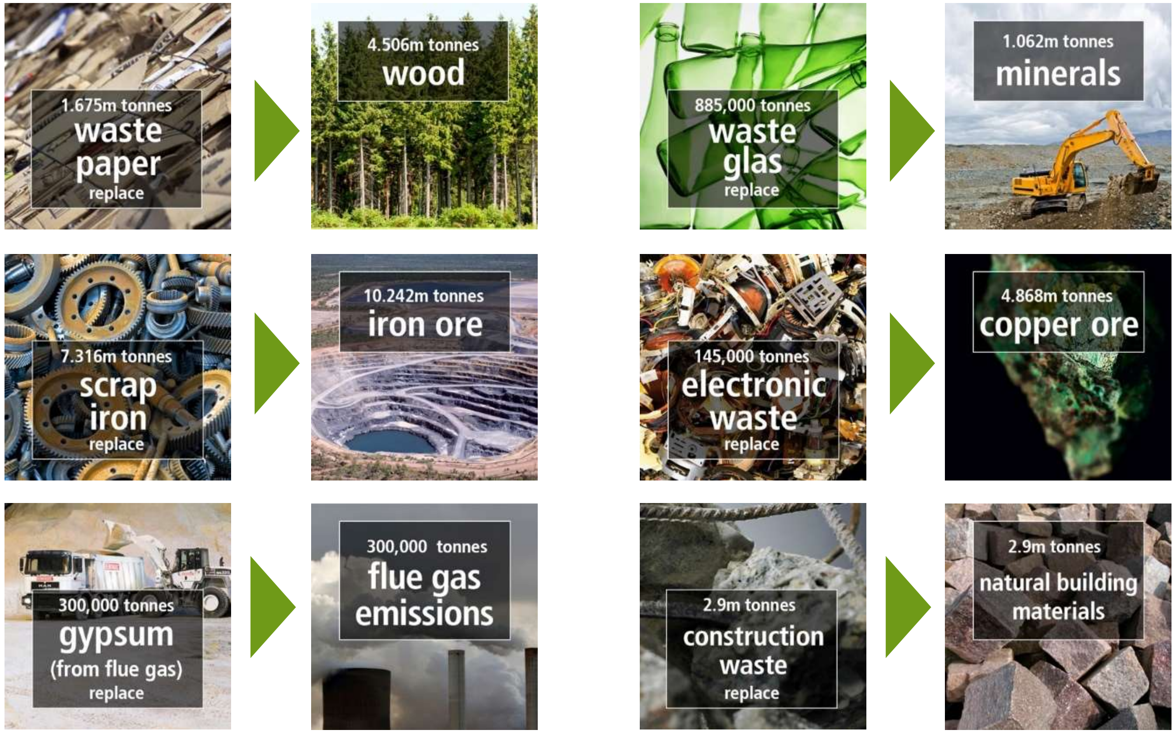
# Ensuring supply of materials: Systematic recycling to recover raw materials

## Recycling

- The only way to counteract the impending global shortage of raw materials and the high prices on the world market is systematic recycling to access a valuable source of raw materials.

- REMONDIS promotes recycling all around the world. With its new technologies and growing capacities.



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# Remediation, engineering, industrial service, digitalization, take-back systems

## Services

### Remediation service

- Remediation of contaminated sites
- Land recycling
- Industrial plant dismantling
- Building remediation

### Engineering

- Plant engineering
- Plant design
- Project management

### Industrial service

- Industrial cleaning
- Shutdown management
- Scaffolding
- Maintenance
- Power plant services
- Laboratory services

### Digitalisation / Innovation

- REMONDIS Innovation Hub
- Innotec
- Redooo
- MIXX Tour Hub

### Take-back systems

- Sales packaging
- Transport packaging
- Waste electrical/electronic equipment
- Filling goods

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# Sustainable solutions cover water treatment and energy production

## Water (and other plants)















# Tasks as broad as M&A itself

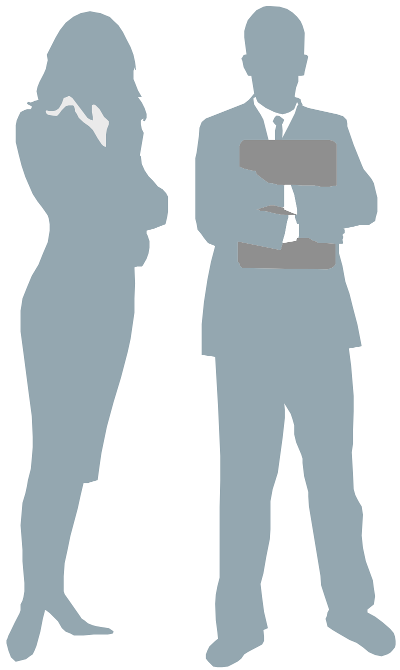
## Who we are and what we do

**Responsibilities**

- A to Z Due Diligence processes
- Supervision of M&A processes
- Project calculations
- Post merger calculations
- Country analyses
- Improvement of internal calculation tools and templates

**Our tasks**

- To support…
- To discuss…
- To fine-tune…



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# M&A at REMONDIS understood as an network of experts

## International M&A network

**International exchange to share expertise**

- Elimination of communication barriers
- Stimulation of regular exchange
- Physical meetings where possible
- International trainee and exchange programs

**Development of expertise in the respective countries**

- Entrepreneurship & responsibility
- Project-related Learning-On-The-Job
- Compilation of M&A best practice

**Support of independent working in all countries**

- Establish uniform data processing
- Locate preparation and key project steps in the countries where possible
- M&A department as supporting partner

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# Manifold reasons for takeovers apply

## Motivations and considerations for M&A deals

| | |
|---|---|
| Velocity | Pricing |
| Confidentiality | Risk vs Warranties |
| Transaction security | |

- Brands
- Technology
- Assets
- Customer contracts
- Synergies
- Expansion
- Distribution networks
- Employees
- EGO
- Supply
- IP
- Take over defence

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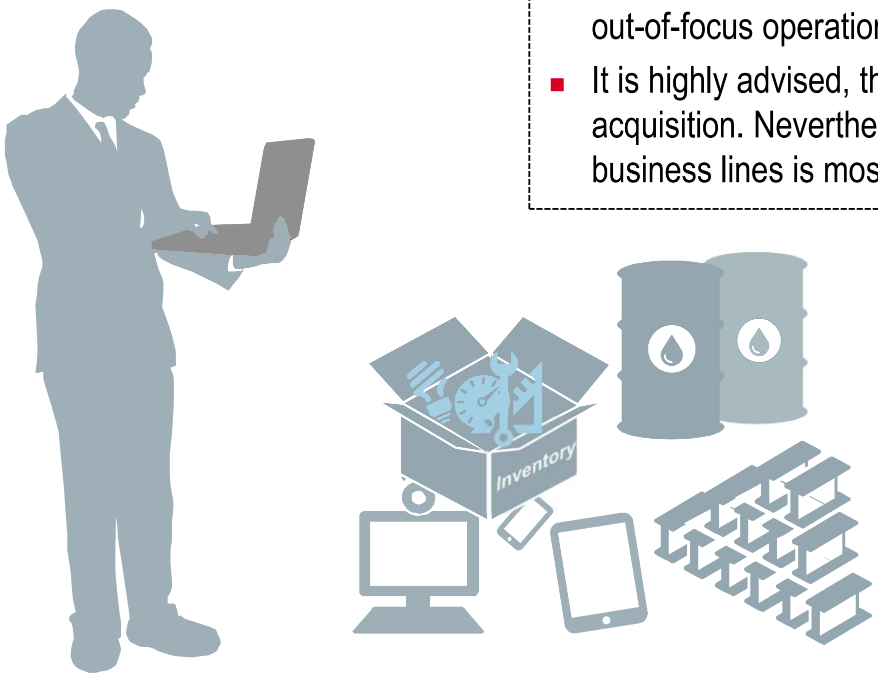
# Buyers can be divided into two different categories

## Strategic Investors vs. Financial Investors

| | Strategic Investors | Financial Investors |
|---|---|---|
| **Basic types** | ▪ Industrial / commercial companies<br>▪ Experienced market participants | ▪ Private Equity / Investment firms / Pension funds<br>▪ High net worth individuals |
| **Primary reasons** | ▪ Strengthening the current business<br>▪ Vertical integration<br>▪ Entering new markets | ▪ Achieving return on investment<br>▪ Focus on growth potential<br>▪ Platform building (M&A) or sale of parts |
| **Main instrument** | ▪ Synergies<br>    ▪ hard synergies (e.g. cost savings)<br>    ▪ soft synergies (e.g. company culture, management competency)<br>▪ Application of best practice | ▪ Use of borrowed capital<br>    ▪ Cost reduction through necessary fulfilment of (high) debt payment obligations<br>    ▪ Only most profitable projects can be realized<br>    ▪ High return on equity through debt repayment and higher exit valuation |
| **Typical structure** | ▪ Integration in existing group<br>▪ Rebranding<br>▪ Long term scope | ▪ Stand-alone<br>▪ Leveraged Buyout (LBO), MBO, MBI<br>▪ Frequent reporting |
| **Main issue** | ▪ Best owner of the company | ▪ Valuation gap<br>▪ Market momentum<br>▪ Cashflow certainty |

# Separation of out-of-scope business units

## Carve-Outs overview




**Description**

- Separation of parts of an entire business or a company
- Several business lines can be compiled within one legal corporation. Since not all businesses match the scope of REMONDIS, a carve-out out-of-focus operations might be necessary
- It is highly advised, that a potential carve-out is performed prior to acquisition. Nevertheless, a long performance track record of separate business lines is mostly rare

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# Carve-Outs of business units requires thorough investigation

## Motivation and challenges

| Motivations for Carve-outs | |
|---|---|
| Key reason for REMONDIS | ▪ Business activities do not match the scope main operation |
| Focus of Management | ▪ Management will be able to develop business unit independently with an autonomous and clear focus |
| Efficient capital allocation | ▪ Independent funding of separate business unit including risk adequate costs of capital |
| Strategic decisions | ▪ Separation for instance with the intention to change the profile of the remaining business (sale of crown jewels) |
| Cash-in of success stories | ▪ Utilize market momentum to realize achieved gains and non-core activities |
| Restructuring | ▪ Re-allocation of business activities with a changed focus on promising business units |

| Key challenges | |
|---|---|
| Dissecting financials | ▪ If the different operations are gathered within one legal entity, the key challenge is to separate balance sheets and P&Ls. Likewise all further statements and compilations have to match the splitted balance sheet and P&L<br>▪ P&L items have to be challenged thoroughly, since over- or understatement of costs can occur easily<br>▪ While revenues, HR costs, material and subcontractor costs can be separated easily, overhead costs, rent and management costs bear discussion potential<br>▪ Benchmarking with existing companies can be helpful |
| Assessment of impact on operative business | ▪ Reduction of Economies of Scale for instance due to lower market and negotiation power or quantity discounts<br>▪ Ensuring continuance in providing of business functions (especially overhead functions)<br>▪ Identification of key assets and employees and likewise to prevent drain of IP and quality<br>▪ Management responsibilities have to be re-allocated<br>▪ Restraints on future competition and if necessary rebranding |

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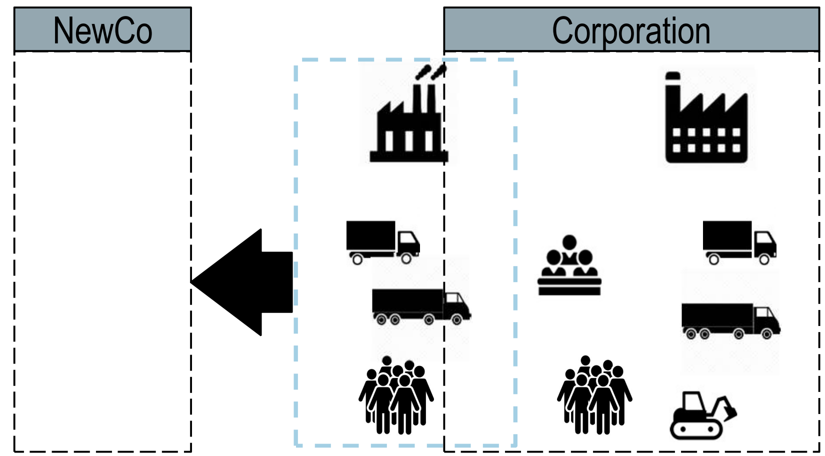
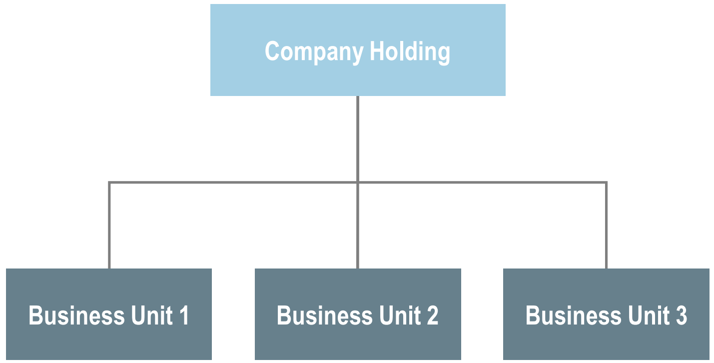
# Carve-out solutions usually correspond to the company size

## Overview

### Carve-out by sale of assets




### Carve-out by separation of legal entity




### Description

- Sale of out-of focus assets to a newly set up entity which can be held by the seller
- Business continuance for the existing company
- Employees of the carved-out activities are handed over to the NewCo including their legacy in rights and obligations
- Continuance of business contracts has to be assured
- In case the sale of assets generates profits, the respective taxation has to be addressed ex ante

### Forms

- Sale of legal entities for instance to the ultimate shareholder
- Equity carve-out with subsequent IPO
- Spin-off by emission of shares in the separated business unit as pro-rata dividend
- Split-off- shareholders decide on exchange of old shares against shares in the new corporation

# Share Deal and Asset Deal are common to separate businesses

## Multiple ways to execute a carve-out transaction

**3 common ways to conduct a carve-out**

### Share Deal

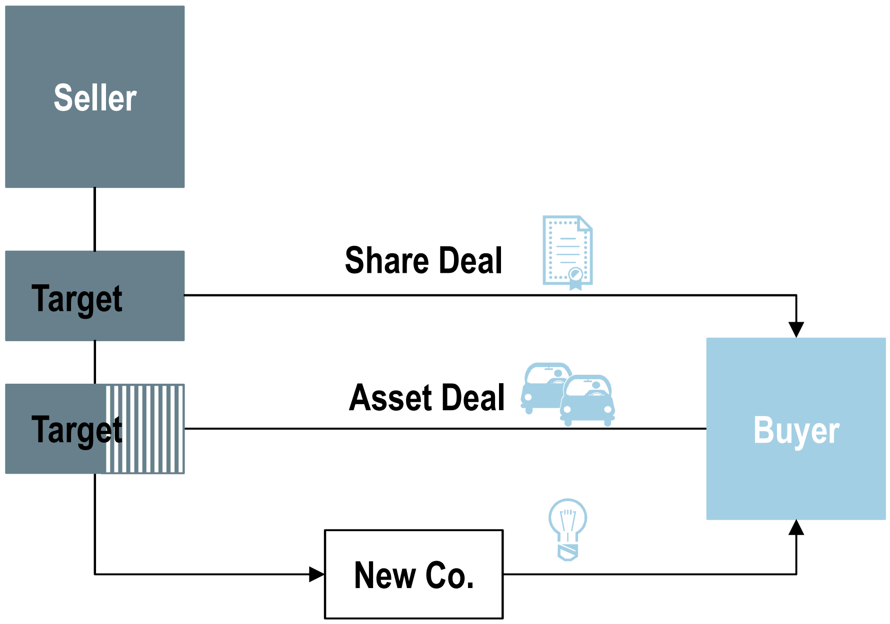
- In this case the target operations are confined by a legal entity. The transaction takes place via a sale of the shares in this entity to the buyer. The buyer becomes the legal owner of the target.

### Asset Deal

- Here the target operations are transferred to the buyer via a transfer of all of its assets or at least its essential assets (e.g. machinery, customer contracts, employees).

### New Co.

- A new legal entity is set up. The seller then transfers all relevant assets to this new corporation ("New Co."). The buyer afterwards acquires the New Co. via a share deal. This option is particularly useful if the seller is divesting one business unit out of multiple business units within one entity.




**ZEBRA** companies refer to legal entities subject to be splitted in a carve out.

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# Upsides and downsides of executing transactions as Share Deal

## Share Deal vs Asset Deal

### Advantages

- Object of purchase is easily identifiable
- Contracts remain unaffected, approvals are only conditionally required (exception: change of control clauses)
- Possible access to loss carryforwards
- Possibility of bypassing the board in the event of share purchases in listed companies (hostile takeover)
- Where applicable, management commitment through minority interests

### Disadvantages

- Continuity of liability for known and **unknown** liabilities
- Liability clauses as a necessary part of the sales contract negotiations
- Careful tax and legal DD required
- Possible detrimental influence of potential minority shareholders

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# Different Due Diligence challenges in share deal and asset deal carve-outs

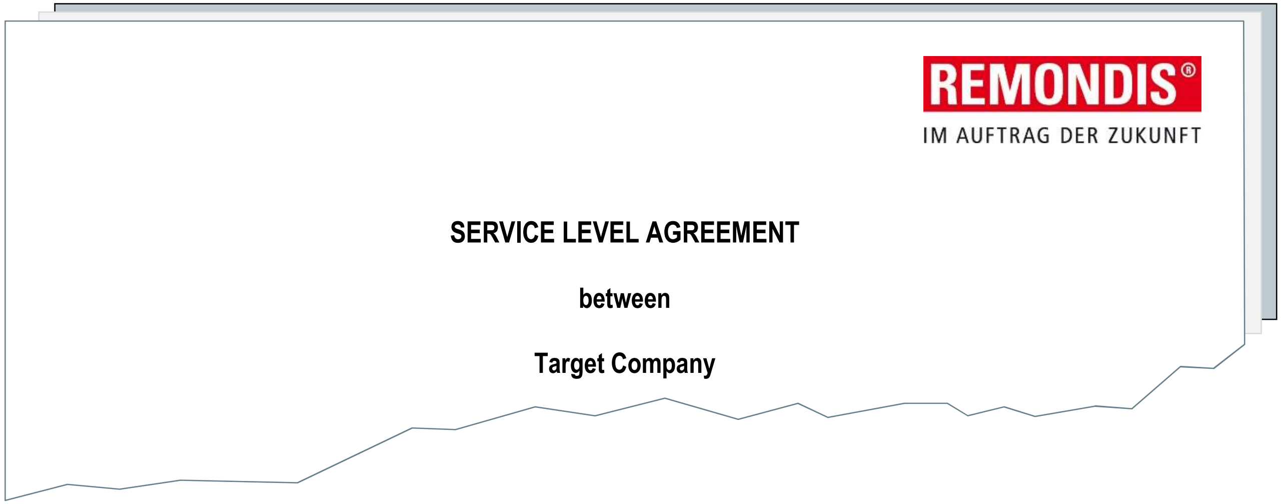
## Overview Due Diligence Work Streams in Carve-Outs – Share Deal vs. Asset Deal

| Due Diligence Streams | Share Deal | Asset Deal |
|---|---|---|
| Financial | **Audited Annual Reports & Management Reporting**<br>The independent legal entity has its own audited and management accounts.<br>*Balance Sheet*<br>▪ Asset register<br>▪ Working Capital<br>▪ Net Debt<br>*P&L Statement*<br>▪ Readily available<br>▪ Need to derive pro-forma EBITDA for standalone situation (or integration in buyer group) since target may rely on seller's group | **Typically no audited Annual Report and no Management Reporting**<br>▪ Mostly no separate financial statements for the target<br>▪ Must be derived pro-forma<br>*Balance Sheet*<br>▪ Need to identify target assets<br>▪ Build up working capital<br>▪ Separation can be done via a) detailed separation (where possible) or b) based on a ratio.<br>*P&L Statement*<br>▪ Must derive revenues and standalone cost structure pro-forma<br>▪ Overhead may be attributed based on allocation keys |
| Operational | **Need to identify target standalone operational needs**<br>▪ Permits<br>▪ IT<br>▪ Overhead functions<br>▪ Management<br>▪ Procurement | |
| Tax | **Identify future tax implications**<br>▪ Purchase Price Allocation<br>▪ Goodwill depreciation only possible in consolidated financial statement | **Identify future tax implications, in particular values of assets**<br>▪ Define Step Up on book values of assets (tax depreciation increase)<br>▪ Country-specific rules<br>▪ Goodwill depreciation possible in individual financial statement |
| Legal | **Identify change of control clauses, TSAs**<br>▪ Buyer assumes all rights and duties (tritt Rechtsnachfolge an) | **Identify change of control clauses, TSAs**<br>▪ Ensure that all assets are transferred free of encumbrances<br>▪ Inform customers that they will have a different legal entity as business partner and ensure ongoing contracts |

**Post-carve out financial, operational, tax and legal situation of target**

# Service Level Agreements ensure continuance of processes

## Service Level Agreements




A service level agreement (SLA) is a framework contract or interface between the client and the service provider for recurring services.

Typical areas of SLA include:

- IT services
- Financial administration
- Accounting
- Payroll billing
- Cleaning services
- Maintenance

**Relevant content (example)**

Service Level Agreement

1. Subject Matter & Term of Agreement
2. Principal's Instructions & Obligations
3. Technical & Organizational Measure
4. Agents Obligations
5. Remuneration
6. The Right to Use Sub-Agents
7. Agent's Obligations regarding the Notification of Breaches
8. Safeguarding the Rights of Data Subjects
9. Right of the Principal
10. Ending of provision services
11. Non-disclosure
12. Final provisions

Annex Schedule 1

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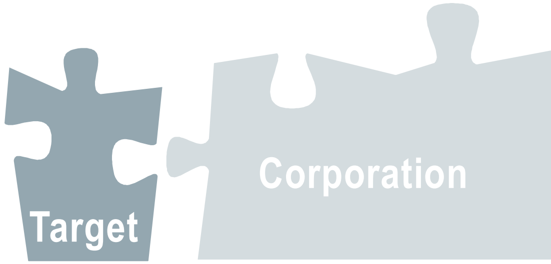
# Post-Merger-Integration drives the success of an acquisition

## Integration

Operational Issues

Post-Merger-Integration is a key challenge after deal closing and essentially drives the success of an acquisition.




### Scope of examinations

**Integration efforts**

- Integration requires **one-off efforts** for
  - Rebranding of vehicles, sites, containers, etc.
  - Moving of from sites and merging of operations
  - Investments to ensure compliant and secure operations
  - etc.
- To track the performance of a target, a comprehensible **Reporting** is necessary from the month of acquisition. Thus, the management can react on drawbacks immediately
- **IT systems** and functions have to be aligned, in the long run implementation of ERP system is designated in many target companies
- **Synergies** add value to an acquisitions, common synergies relate to
  - Merging of logistic tours
  - Merging of overhead functions
  - Profiting from the REMONDIS network w.r.t. knowledge, increasing service portfolio, disposal opportunities
  - Purchasing at lower REMONDIS purchase conditions

**Corporate Culture**

- Corporate Culture is a relevant lever in successful acquisitions
- The underestimation of Corporate Cultures implication can result in vast costs, employment changing and management problems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